Flash Economics

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Europe: The return to national sovereignty (Europe of Nations) contradicts the need to exploit economies of scale

Across all European countries, there is a clear shift towards a demand for national sovereignty. This is evident in the rejection of acquisitions made by companies from other European countries and the significant rise in voting intentions for nationalist parties. However, at the same time, Europe needs to exploit economies of scale, which require the existence of a large, unified market and companies capable of operating within this integrated market across various sectors (banking, digital, green industries, defense industry), as well as the unification of strategies and decisions (regulatory, industrial policy, etc.).

It is apparent that there is a contradiction between the return of the "Europe of Nations" and the need for large-scale operations in most sectors.

Patrick Artus
Senior Economic Advisor
patrick.artus-ext@ossiam.com
@PatrickArtus
Patrick Artus

Isabelle Gravet
Research Assistant
isabelle.gravet-ext@ossiam.com

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Return to sovereignty demands

The balance is shifting in European countries towards the idea of a **Europe of Nations**, at the expense of the idea of a federal Europe.

In a Europe of Nations, **countries retain their sovereignty** in areas such as regulation, defense, and strategic industries. This shift towards the demand for a Europe of Nations is evident in the following:

- **The high support for nationalist parties** in recent opinion polls: In October 2025, the Alternative for Germany (AfD) garnered 27% of voting intentions; in France, the National Rally (Rassemblement National) had 33%; in Italy, Fratelli d'Italia received 29%; and in Spain, Vox obtained 15% of voting intentions.
- **Restrictions on the sale of national companies** to foreign investors. For instance, **in Italy, the Golden Power** law allows the government to veto any foreign direct investment in strategic Italian companies, including in the defense, infrastructure, finance and insurance, pharmaceutical, and critical materials sectors. **In France, Articles L.151-2 and L.151-3 of the Monetary and Financial Code** grant the Ministry of the Economy the power to block foreign acquisitions in sectors related to public health or any company deemed to be of "national interest". This power has been exercised to reject the sale of Carrefour to Couche-Tard, Legrand to ABB, and Photonis to Teledyne.

National sovereignty hinders the exploitation of economies of scale

The return to a Europe of Nations will prevent Europe from fully leveraging the benefits of the single market, particularly in terms of exploiting the economies of scale that come with a large, unified European market. **As a result, companies remain smaller in size compared to their global competitors**, putting them at a disadvantage in several key sectors (banking, digital and artificial intelligence, defense industry, Tables 1A/B-2A/B-3A/B).

Table 1A : Balance sheet size of major U.S. banks (2025, USD bn)

Bank	Balance sheet size
JP Morgan Chase	3813
Bank of America	2651
Citibank	1844
Wells Fargo	1767

Source : Federal Reserve

Table 1B : Balance sheet size of major european banks (2025, EUR bn)

Bank	Balance sheet size
HSBC	2896
BNP Paribas	2704
Groupe Crédit Agricole	2309
Banco Santander	1837
Barclays	1831
UBS	1502

Source : Boursorama

Table 2A : Market capitalization of major U.S. information and communication technology companies (USD bn) (N.B. should be ranked high to low like the other tables)

Firm	Market capitalization
Nvidia	4595.37
Alphabet 'A'	3887.76
Apple	3846.73
Microsoft	3593.33
Amazon Com	2582.33
Meta Platforms A	1635.27
Tesla	1434.79

Sources : LSEG Datastream

Table 2B : Market capitalization of major european information and communication technology companies (EUR bn)

Firm	Market capitalization
ASML Holding	408.25
SAP	255.59
Spotify Technology	100.33
Infineon Technologies	54.59
Dassault Systemes	32.37
Mistral (market value)	11.70

Sources : LSEG Datastream

Table 3A : Market capitalization of major U.S. defense firms (USD bn)

Firm	Market capitalization
RTX	249.02
Lockheed Martin	114.97
General Dynamics	93.36
Northrop Grumman	82.35

Sources : LSEG Datastream

Table 3B : Market capitalization of major european defense firms (EUR bn)

Firm	Market capitalization
Rheinmetall	83.36
Thales	55.30
Leonardo	33.16
Dassault Aviation	23.96

Sources : LSEG Datastream

Moreover, **policies are often defined within a national framework rather than a European one.** This is the case for industrial policies and the development of defense industries.

Summary: A strong contradiction

There is a significant contradiction in Europe between:

- The demand for sovereignty based purely on national grounds (a return to nation-states); and
- The need to capitalize on increasing economies of scale and leverage the potential of the single market, which necessitates the creation of more European companies of a global scale, comparable to American companies.

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